

## CHAPTER 1

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# Introduction

WHEN SPANISH TROOPS CAPTURED ANTWERP IN AUGUST 1585 THE CITY'S merchants faced a difficult choice. They could stay, if they accepted the sovereignty of Philip II, but commercial prospects were bleak since large groups of Flemish textile workers had already left for France, England, and Holland and Dutch rebels blocked the river Scheldt and the Flemish coast. An alternative was to move to Protestant London, but here the local business elite actively tried to exclude newcomers. The Atlantic ports of Rouen and Nantes offered good connections to many countries in Western Europe, but France was embroiled in civil war, just like the Northern Netherlands where Zeeland and Holland remained fully exposed to military action. Hamburg and Emden in northern Germany were safer havens, but their Baltic affairs languished. Eventually Amsterdam attracted most traders from Antwerp. The immigration there started with merchants who specialized in the exchange of grain and textiles with the Baltic region, but soon enough the Dutch port became the preferred destination of merchants with a much broader commercial outlook, including a considerable number of German, Portuguese, English, and Italian merchants.

Amsterdam's rise to commercial primacy was a remarkable achievement. Within fifteen years the city managed to create well-functioning markets for the widest possible variety of goods, financial services, and commercial information. This, in turn, enabled local and foreign merchants to build up large, diversified businesses with Amsterdam as the central node in their international network of trading agents. In the meantime, however, the Dutch Republic continued to fight Spain, exposing merchants on virtually every land and sea route to violence. In addition to this violence, newcomers in Amsterdam were confronted with agency problems that issued from the differences between their own contracting practices and those of other foreigners and local merchants. Amsterdam's response to these challenges differed markedly from the responses of many of its urban competitors. Instead of granting safe-conducts, consular jurisdictions, or other special rights to separate groups, the city created inclusive institutional arrangements to protect all merchants, regardless of their origin, wealth, religion, or economic specialization against violence and opportunism.

The creation of *open access* or *generalized* institutions made it easier for merchants to deal with the conflicts that issued from Europe's political and legal fragmentation, but the origins of these more inclusive commercial regimes are subject to debate.<sup>1</sup> Douglass North, John Wallis, and Barry Weingast, Daron Acemoglu and James Robinson, and others emphasize the formation of stronger states with the military means to protect trade and the legal powers to adjudicate conflicts between traders. In their view, a state like the Dutch Republic could credibly commit to the safety of merchants because effective constraints on its executive power legitimized both their military and legal interventions and the fiscal efforts to provide this protection.<sup>2</sup> One problem with this explanation is that the strongest states in late medieval and early modern Europe were also the most belligerent, witness the military operations of Genoa and Venice in the eastern Mediterranean or the Atlantic power struggle among the Dutch Republic, England, and France.<sup>3</sup> Moreover, the importance of strong states is difficult to square with the early expansion of European trade. When European merchants first started trading across longer distances in the eleventh and twelfth centuries, sovereign rulers wielded very little if any power because their territories were small and their fiscal and military resources limited.<sup>4</sup>

To explain the growth of trade in the absence of strong states, Avner Greif has pointed to the development of private order solutions for the problems of violence and opportunism. Peer pressure and the prospect of repeat transactions helped merchants to keep distant agents honest, while the formation of guilds allowed them to organize boycotts and keep rulers from preying on their property.<sup>5</sup> Private order solutions thus contributed to the growth of trade in two distinct ways: they reduced or even preempted the merchants' reliance on the government to enforce contracts, and they could stimulate local or central authorities to protect merchants and provide impartial justice.<sup>6</sup> But there also are problems with this explanation. Notably Sheilagh Ogilvie has argued that group formation could lead to regulatory capture and rent seeking. When local merchant guilds and chartered companies used their social capital and corporate power to exclude competitors, they could strangle economic

<sup>1</sup>Gelderblom and Grafe 2010: 485; Ogilvie 2011: 248, 313–14, 340–41, 387–90, 432.

<sup>2</sup>North and Thomas 1973: 6–8, 120–58; North 1981: 143–57, esp. 154; North, Wallis, and Weingast 2009: 22; Acemoglu, Johnson, and Robinson 2005: 562–63; Acemoglu and Robinson 2012: 428–62; Jones 2003: 85–90, 232–36.

<sup>3</sup>Findlay and O'Rourke 2007: 127–33, 238–62; Rosenthal and Bin Wong 2011: 92–93.

<sup>4</sup>Tilly 1990: 38–42; Blockmans 1994: 223–24.

<sup>5</sup>Greif 1989: 867–68; Greif, Milgrom, and Weingast 1994: 748–49; Greif 2006b: 58–90, 318–49.

<sup>6</sup>Curtin 1984: 13; Greif 2006b: 121–23, 318–38; Selzer and Ewert 2001: 150–54.

growth.<sup>7</sup> On the other hand, the historical record shows that local and foreign merchants were willing to forego a corporate status when local rulers stepped in to provide the necessary legal and commercial support for their private business operations.<sup>8</sup>

The aim of this book is to develop an alternative explanation for institutional change in European commerce that is not predicated upon the existence of strong territorial states or the ability of merchants to create private order solutions. Instead, I argue that the very problem of Europe's political and legal fragmentation also produced its solution, in the form of competition between urban governments that tried to attract trade through the continuous adaptation of their legal, commercial, and financial institutions. Cities may seem a most unlikely candidate because their political power was limited and their jurisdiction did not reach far beyond the city walls, but even though the law was local and international trade—by definition—was not, the cities' legal autonomy actually made it easier for municipal governments to adapt institutional arrangements to the needs of international traders.<sup>9</sup> At the same time, the financial resources of commercial cities, both taxes and loans, were so important for most sovereigns that they seldom clamped down on major entrepôts.<sup>10</sup> But even then, why did the magistrates of commercial cities act in the interest of the merchant community at large instead of favoring specific groups of traders or excluding others—rent seeking behavior that can be observed in many industrial towns?<sup>11</sup> One might argue that international traders formed the government of commercial cities.<sup>12</sup> But this was not always the case, witness Venice or Antwerp, and even when active traders did dominate the municipal government, like in Amsterdam or London, they typically belonged to a very small political elite that excluded not just foreign merchants but also many local traders from power.<sup>13</sup>

<sup>7</sup>Ogilvie 2011: 94–159, 414–26. See also Lindberg 2007: 59–61; Lindberg 2009: 611–23; and Gelderblom 2009: 226–32; for a theoretical exposition: Dessí and Ogilvie 2003.

<sup>8</sup>Gelderblom and Grafe 2010: 485–86. Compare Greif's discussion of the role of late medieval rulers in the decline of merchants' collective liability for debts (Greif 2006b: 309–49).

<sup>9</sup>On urban support for trade: Pirenne (1927) 1970: 92–92; Hohenberg and Lees 1995; on the ability of organizations to adapt as a key factor in institutional change: North 1990: 80–82; North 2005: 77–78, 108–12; on the legal autonomy of local governments: Bairoch 1988: 170; English 1988: 56–112; Epstein 2000: 151–55; Kadens 2004: 50–56.

<sup>10</sup>Tilly and Blockmans 1994: 22–27; see also Tilly 1990; Stasavage 2011: 132–55.

<sup>11</sup>Braudel 1977: 57–58; Ogilvie 2011: 41–93.

<sup>12</sup>On the alleged political power of commercial interest groups: Acemoglu, Johnson, and Robinson 2005: 550; North and Thomas 1973; North 1981: 154; Stasavage 2011: 14–16, 111–32.

<sup>13</sup>On the participation of merchants in the local government of Amsterdam: Lesger 2006: 144; for London: Brenner 1993: 79–91; on the exclusion of local and foreign merchants from political power: Gelderblom 1999: 240–44; Lindberg 2009: 615–16, 621; van Gelder 2009.

The motivation of commercial cities to create inclusive institutional arrangements, I argue in this book, issued not from the political franchise of their merchants but from the economic rivalry between these cities. Competition has long been recognized as a key feature of European history with a deep impact on the formation of states, technological change, and economic growth.<sup>14</sup> Yet the effect of urban competition on the organization of international trade has remained largely unexplored.<sup>15</sup> Premodern Europe was characterized by the existence of a large number of cities with the potential to become a major international market.<sup>16</sup> Commercial leadership periodically shifted from one center to another. Achieving a leading position required strong commercial ties with other cities, which in turn stimulated a welcoming attitude toward foreign traders and targeted efforts to adapt local institutions to their business needs. Urban competition thus created a constant impetus to adapt institutions to the needs of the merchant community at large, with the arrival of new merchants further adding to the menu of institutional choices.

To demonstrate how urban competition affected the organization of international trade at its cutting edge, this book analyzes the consecutive rise of Bruges, Antwerp, and Amsterdam to commercial primacy between 1250 and 1650. In doing so, we will be able to answer several outstanding questions regarding the organization of international trade before 1800. Why did institutional change continue in Europe for many centuries while it stagnated in other commercialized areas like the Middle East or China? Why was the adaptation of contracting institutions in Europe not confined to areas with strong cities and weak sovereigns, but instead affected every town with commercial aspirations even in absolutist states like France or Spain? On the other hand, competition between cities, or rather changes in their competitive strength, can also explain why in some of them, after long periods of openness toward foreign traders, the dynamic process of institutional change ended in regulatory capture by local elites. And finally, urban competition helps to explain why even ports at the very top of Europe's urban hierarchy, in spite of their very sophisticated commercial and financial institutions, eventually lost their competitive advantage, producing Fernand Braudel's now classic sequence of commercial capitals from Venice to Antwerp, Genoa, Am-

<sup>14</sup>See, e.g., Wallerstein 1976; Mokyr 1994: 562–63; Pomeranz 2000: 194–206; Jones 2003: 104–5, 123–24, 245–46; North 2005: 60, 137–38, 141–42; North, Wallis, and Weingast 2009: 133–34, 136; Rosenthal and Wong 2011: 119–26.

<sup>15</sup>Hohenberg and Lees 1995: 374; but compare Volckart (2002: 81–82), who describes how in late medieval Germany cities competed with local lords to provide security to merchants.

<sup>16</sup>De Vries 1984: 158–67, 263; Bairoch 1988: 178–81; Hohenberg and Lees 1995: 47–55, 106–13.

sterdam, and then London. But before we can answer these questions, we should consider in greater detail the dynamics of institutional change.

#### STATE FORMATION AND THE GROWTH OF TRADE

Modern theories of institutional change take the strength of sovereign rulers as a crucial variable to explain institutional continuity or change. The basic assumption is that sovereign rulers who are strong enough to protect the property of their subjects may also abuse these powers and harm the interests of their subjects.<sup>17</sup> England is a principal reference point in all of these theories that derive from the work of English political philosophers like Hobbes, Steuart, and Smith, who were among the first to identify the crucial role of sovereigns in the protection of private property. In particular, England's history before and after the Glorious Revolution (1688–89) has led political scientists and economic historians to argue that the establishment of constitutional government in 1688 was a prerequisite for the creation of more secure property rights, the improvement of contracting institutions, and the subsequent growth of British trade and industry in the eighteenth and nineteenth centuries.<sup>18</sup>

From an English point of view these causal inferences seem reasonable enough because royal interventions in England's economy had a long pedigree. In the thirteenth century kings already regulated payments and credit operations, opened their courts to local and foreign merchants, and chartered trading companies for the export of wool and cloth. In the early modern period the crown organized and reorganized London's chartered companies, introduced radical protectionist policies, and created a standing navy with the explicit goal of furthering England's commercial interests.<sup>19</sup> For many economic historians the Glorious Revolution was a fundamental breakthrough, not just in politics and public finance but also in foreign trade, because it ended the privileged position of a limited number of London merchants who until then controlled virtually every sector of international commerce.<sup>20</sup> According to Acemoglu, Johnson, and Robinson (2005) the political revolution was indeed caused by the emergence of a new group of merchants in England's rapidly expanding Atlantic trade.

<sup>17</sup>See, e.g., North 1981: 20–24; Olson 2000: 6–11; Greif 2006b: 91.

<sup>18</sup>North and Weingast 1989; Acemoglu, Johnson, and Robinson. 2005: 562–69. For the distinction between contracting and property rights institutions: Acemoglu and Johnson 2005.

<sup>19</sup>Harris 2000; O'Brien 2000; Ormrod 2003.

<sup>20</sup>On the organization of England's foreign trade, see Gelderblom 2009: 226–32, with references to the older literature. Dincecco 2011: 5–9 summarizes the debate on the political and economic effects of the Glorious Revolution.

Their growing political power would have forced the English crown to support institutional arrangements that benefited the merchant community at large.<sup>21</sup>

The English case is nevertheless a poor foundation for empirical generalizations about the role of central governments in the organization of trade because the political situation was very different from that in the rest of Europe. London was the main gateway for domestic producers and foreign traders, but it was also the country's political and administrative center, as a result of which the crown had very close ties to the local business elite. On the European Continent, whether in Spain, France, Germany, or the Dutch Republic, the major commercial cities were always at a distance from the seat of government. As a result, there was no Continental equivalent of the chartered companies that controlled England's exports to Europe, and even though several princes opened up their central courts to commercial litigation, they could not fulfill their promise to adjudicate conflicts between merchants from different legal backgrounds because proceedings were too slow and the professional lawyers too ignorant about mercantile usage.<sup>22</sup> Consequently, merchants on the Continent had to rely on the market facilities and legal services provided by individual cities to support their trade.

A further drawback of the model proposed by Acemoglu, Johnson, and Robinson is its exclusive focus on Atlantic trade. The political and economic demands of London's colonial merchants did not necessarily reflect the concerns of English traders who operated within Europe. Whereas the latter wanted the government only to facilitate private trading, the organization of trade in the Atlantic and particularly in Asia required a very specific combination of diplomacy, military effort, and foreign trading posts to control distant markets and withstand European rivals. Thus, the active involvement of the English crown in colonial trade was a sheer necessity, and altogether very similar to that of Venice and Genoa when they first ventured into the Islamic world in the eleventh century or, for that matter, any other colonial power in Europe in the sixteenth and seventeenth centuries.<sup>23</sup> As trade within Europe did not require this kind of intervention, and Continental princes in any case lacked the power to do so, England's particular institutional trajectory of the seventeenth century with the crown as the protagonist of institutional

<sup>21</sup>Acemoglu, Johnson, and Robinson 2005: 564–66; see also Acemoglu and Robinson 2012: 209–11, 362. Note, however, that according to Brenner (1993: 517) a new group of independent merchants, i.e., with no ties either to the crown or to the chartered companies, had gained political influence already in the 1640s.

<sup>22</sup>See chapter 5.

<sup>23</sup>Greif 1998: 26–27; Dursteler 2006; Findlay and O'Rourke 2007: 92–96, 143–87; Gelderblom, de Jong, and Jonker 2011.

change remains a poor guide to the institutional arrangements that supported the growth of trade within Europe before 1800.

## PRIVATE ORDER SOLUTIONS

Now how could merchants prevent violent assaults or the opportunistic behavior of their agents without the support of sovereign rulers? The most extreme answer to this question is that foreign traders did not need the government because they relied on private order solutions instead. The history of European trade provides many examples of merchants organizing transactions privately. Whether in the Mediterranean, the Baltic Sea, or the Atlantic world, the commercial operations that emerge from account books and business letters invariably point to the crucial importance of personal relations in the organization of cross-border trade.<sup>24</sup> In the case of the Sephardic Jews or the Christians from Armenia it is very clear that merchants could build large commercial networks without any support of a home government.<sup>25</sup> The international diamond trade of the eighteenth century also suggests that informal agreements sufficed to close big deals, and in the first early modern stock markets of Amsterdam and London traders explicitly renounced government intervention.<sup>26</sup> It is not difficult to add more examples to show how friendship and kinship, shared cultural beliefs, and the prospect of repeat transactions helped merchants to keep agents honest. But would that prove that private order solutions can sustain international trade in a legally and politically fragmented world?

Yes, says Avner Greif, that is exactly what happened in Europe during the Commercial Revolution of the eleventh and twelfth centuries, when merchants developed several institutional arrangements to trade at arm's length without recourse to a third party. Jewish merchants trading between North Africa and Italy in the eleventh century, for instance, formed coalitions within which they shared information about agents in other locations. Their surviving correspondence suggests that regular interaction allowed the Maghribi traders to detect defaulters and to exclude them from future transactions, thus creating a strong incentive for individual members to honor their obligations.<sup>27</sup> Many more merchants in medieval Europe traded in guilds, *consulados*, and *hansas*—mercantile associations

<sup>24</sup> See, for instance, Häberlein 1998; Selzer and Ewert 2001; Mathias 2000; Gelderblom 2003c; Dursteler 2006.

<sup>25</sup> Yogeve 1978: passim; Curtin 1984: 179–206; Israel 2002: passim; Trivellato 2009: 102–31.

<sup>26</sup> On stock markets: Stringham 2003: 15–17; Petram 2011: 107–14; Petram 2012: 151–68; Carlos and Neal 2011: 25–26; Murphy 2010: 83–87. On the diamond trade: Trivellato 2009: 238–50; Vanneste 2011.

<sup>27</sup> Greif 1989: 867–68; Greif 2006b: 85–89.

that paired a strong sense of community to collective liability for the debts of individual members and punishment through exclusion.<sup>28</sup> Some of these associations, the German Hanse in particular, were so well organized that they could credibly threaten foreign rulers to leave collectively in case they preyed on any one of their members.<sup>29</sup> Finally, quite a few legal and economic historians have argued for the existence of a medieval *lex mercatoria*, or law merchant—a uniform legal code distinct from existing Roman law, canon law, and common law, which would have emerged spontaneously from regular exchange between merchants from different local backgrounds.<sup>30</sup>

But were these collective arrangements truly self-enforcing? Did they allow merchants to govern long-distance transactions without any support from either central or local governments, or was there a constant interaction between public and private institutions? With regard to the coalition of Maghribi traders, Goldberg, Edwards, and Ogilvie and others have pointed out not only that they shared social norms and cultural beliefs, but also that their commercial transactions were subject to more formal rules enforceable by religious or lay judges.<sup>31</sup> The sole survival of business letters makes it difficult to determine conclusively whether the Maghribi traders operated in the shadow of the law or not, but for merchant guilds and other communal institutions such formal embeddedness is beyond doubt.<sup>32</sup> For instance, the law merchant referred to in several medieval texts actually comprised a narrow set of procedural rules instituted by local rulers to secure a speedy resolution of conflicts between visiting merchants.<sup>33</sup> Avner Greif has shown that the collective liability for debts that made it easier for merchants from different communities to trade with each other was anchored in customary laws allowing merchants whose property had been seized abroad to go to their local court to obtain compensation from the actual perpetrator.<sup>34</sup>

<sup>28</sup>On the history of merchant guilds: Gelderblom and Grafe 2010 and Ogilvie 2011, both with references to the older literature. See also Blockmans 2010a. On the collective liability for debts: Greif 2002: 182–90, 195–200.

<sup>29</sup>Greif, Milgrom, and Weingast 1994: 759–62; Greif 2006b: 105–8; see also Volckart and Mangels: 437. According to Ogilvie (2011: 206–16) there is very little historical evidence for the positive effects of boycotts on the security of merchants.

<sup>30</sup>Berman 1983: 333–56; Benson 2002: 128–30; Milgrom, North, and Weingast 1990: 5–6; Munro 2003: 550–51.

<sup>31</sup>Goldberg 2011: 9–13; Goldberg 2012: 150–64, 178; Edwards and Ogilvie 2012: *passim*. See also Trivellato 2009: 13–14, 157–58. For Avner Greif's refutation of the claims of Edwards and Ogilvie, see Greif 2012: *passim*.

<sup>32</sup>On the government support for the German Hanse, see Greif 2006b: 100–110, 318–20.

<sup>33</sup>Baker 1986: 347; Baker 2000: 88; Basile et al. 1998: 179–88; see also, on the nonexistence of the law merchant, Donahue 2004; Kadens 2004, 2012; Cordes 2005.

<sup>34</sup>Greif 2006b: 318–38; Börner and Ritschl 2002: 207; Börner and Ritschl 2009: 101–3.

The embeddedness of private solutions in a wider framework of public institutions is most apparent from the organization of medieval merchant guilds. Everywhere in Europe merchants trading in foreign countries delegated control to corporate groups to negotiate privileges with foreign hosts, to resolve conflicts between them, or to monopolize a certain branch of trade.<sup>35</sup> Since many guilds performed a wide range of social and religious functions as well, they are sometimes considered paragons of collective action, but as far as the historical record goes, the merchant guilds were always and everywhere instituted with the explicit license of both their home government and their foreign host. This should not come as a surprise given that the guilds were indeed created to bargain with foreign rulers, to establish jurisdictions abroad, or to shield markets from competitors. Obviously, well-organized groups could apply more pressure than individual merchants could to obtain additional privileges or get compensation for damages from their host, but as the membership of most merchant guilds was large and in constant flux, the ability to act collectively typically hinged on the formal control delegated to the guild leaders.<sup>36</sup>

Even if the history of Europe's merchant guilds confirms the importance of formal support for mercantile associations, this does not imply that merchants were unable to organize transactions privately. Surely there were many places where foreign merchants continued to organize in guilds until the eighteenth century, but in the commercial heartland of Europe merchants turned away from these formal bodies much earlier. In the Italian city-states, the Low Countries, and England merchants stopped delegating control to corporate groups and instead started building multilateral networks of relatives and friends who settled abroad with little or no formal support from their home governments. How could this be? Did commercial connections eventually become so dense that the prospect of repeat transactions sufficed to enforce contracts? Did the growing interaction between foreigners create a cosmopolitan culture that bridged the social distance between merchants with very different religious and cultural backgrounds? And should we then conclude that the self-enforcing institutions first observed during the Commercial Revolution of the eleventh and twelfth centuries reached their full potential only in the early modern period? Or did private order solutions even then depend on public support, albeit not from central governments but from the commercial cities that competed vigorously to attract international trade?

<sup>35</sup>Greif, Milgrom, and Weingast 1994: *passim*; Greif 2006b: 91–110; Gelderblom and Grafe 2010: 481–86; Ogilvie 2011: 91–159, and *passim*.

<sup>36</sup>Gelderblom and Grafe, 2010: 487–93.

## URBAN COMPETITION

In the High Middle Ages rulers everywhere in Europe created markets and fairs for the sales of agricultural surpluses from the surrounding countryside.<sup>37</sup> In many towns this market infrastructure never went beyond the most basic facilities, but there were also regions where individual fairs coalesced into cycles of fairs attracting trade for months on end and cities with permanent markets and a large, international clientele.<sup>38</sup> Successful commercial cities, I demonstrate in this study, continuously adapted their commercial, legal, and financial infrastructure to secure the continued presence of these merchants. They replaced temporary stalls with permanent vending locations. They adjusted tariffs and taxes to changes in the scale and scope of trade. They firmly regulated the work of brokers, money changers, and hostellers, but resolutely changed the rules when economic conditions demanded it. More than once cities traded a policy of exclusive privileges to some for free competition between all merchants. This responsiveness to change raises two important questions. Why was it so much easier for cities than for sovereigns to develop institutions to support international trade? And what drove these commercial cities to constantly adapt institutional arrangements to the changing needs of the merchants?

The answer to the first question is rather straightforward: only cities commanded the financial and legal resources to provide the necessary public goods. In Europe before the Industrial Revolution most taxes were local taxes, and for cities it was relatively easy to fund port facilities, public vending locations, and the local court system from current revenue, notably because trade added considerably to their fiscal resources. Even the protection of merchants, whether through the city's own defenses or through armed escorts of trade caravans or merchant fleets, remained a local affair, at least until the later seventeenth century when England and France started to fund their royal navies from state revenues.<sup>39</sup> Cities were also the most likely providers of legal support because almost everywhere in Europe the law was local, and this gave urban magistrates considerable leeway in dealing with the Continent's legal fragmentation. They could accept the heterogeneity of contracting institutions and create consular jurisdictions to allow foreigners to settle commercial disputes according to their own rules, or they could incorporate foreign mercan-

<sup>37</sup>Pirenne (1927) 1970: 66, 135–38; Spufford 2002. For England: Britnell 2009. For Holland and Flanders: Dijkman 2011.

<sup>38</sup>Epstein 1994; Johanek and Stoob 1996; Cavaciocchi 2001; Munro 2001.

<sup>39</sup>Lane 1958; for the Netherlands, see Bruijn 1993; Sicking 2004.

tile usage into their local customs and open their local courts to adjudicate the maritime, commercial, and financial conflicts of all merchants.<sup>40</sup>

Now, what motivated cities to continuously adapt institutional arrangements? Late medieval and early modern cities did not develop theoretically founded economic policies to strengthen their competitive position, let alone what urban planners today would call city marketing to attract new entrepreneurs.<sup>41</sup> However, town magistrates did have an eye for new opportunities in manufacturing and trade, and they understood how specific rules or regulations could constrain or stimulate the urban economy.<sup>42</sup> Under these circumstances specific groups of entrepreneurs, whether artisans in manufacturing towns or merchants in trading centers, could have considerable influence on the institutions governing exchange. Still, even in cities run by merchants, the private interests of the political elite did not necessarily coincide with those of the larger business community. The real question therefore is under which circumstances local magistrates, whether traders, artisans, lawyers, or otherwise, were willing to put aside their private concerns and serve the merchant community at large.

This book argues that urban governments were motivated to adapt institutional arrangements because they expected to gain from the local concentration of regional and international flows of goods, money, and information. There were no predetermined winners of this competition because many cities in Europe had commercial potential. Local supply and demand for goods and services obviously differed between them, but the number of potential gateways within close proximity of each other was such that merchants always had a choice both for the location of their main seat and for the establishment of subsidiary branches.<sup>43</sup> Still, this urban geography would never have led a large number of cities to exert themselves if their competition had been a tournament with only one winner. Surely cities like Amsterdam and London stood at the very top of the urban hierarchy, and their gains from trade certainly were a prize worth fighting for, but the essence of international commerce was the interdependence of a large number of more or less central markets, who could still be very competitive despite a smaller range of goods and

<sup>40</sup>On contract enforcement by local governments, see Lane 1962: 24, 33, 36; Jados 1975: xii; Baker 1986: 349ff.; Nörr 1987: 196–98; Kowaleski 1995: 179–221; van Niekerk 1998: 1:198–200, 225–29, 245–46; Basile et al. 1998: 42, 69–70, 114; Volckart and Mangels 1999.

<sup>41</sup>Reinert 2009: 23–30.

<sup>42</sup>Duplessis and Howell 1982: 55–78; Davids 1996: 100–118.

<sup>43</sup>De Vries 1984: 161, 254–57; Lesger 2001; Lesger 2006: 17–99, 262–63.

services, and a more limited access to other markets.<sup>44</sup> Therefore the efforts of individual cities were directed most of all to maximizing their connectivity with other markets.

The potential benefits to individual cities were large. Not only did the growth of trade lead to the creation of a permanent commercial and legal infrastructure, but as foreigners immigrated and markets became thicker new forms of exchange emerged, for instance in debt finance, insurance, and stock trading. Increased imports and exports also induced the growth of local production and consumption, allowing cities to raise more taxes without damaging the economy. Consequently, commercial expansion strengthened the cities' bargaining position vis-à-vis that of the central government.<sup>45</sup> Sovereigns relied on commercial cities for taxes and loans, which not only increased their commitment to secure property rights and contracting institutions, but also induced their active support for trade, for instance through the issue of safe-conducts or legal privileges to foreign merchants. The growing strength of monarchs after 1500 was at least partially due to their symbiotic relationship with major trading centers, and thus, even in absolutist states where the domestic economy suffered from serious infringements on private property rights, the central government remained very forthcoming toward the commercial cities in their realm.

There were also systemic benefits that accrued to Europe as a whole. While medieval Europe had several commercial subsystems, each with its own institutional arrangements, the growing interaction between regions from the thirteenth century onward gave merchants and magistrates a wider menu of institutional choices on the local market, and it stimulated them to adopt contracting institutions that reduced the costs of trading with other cities. In the long run these institutional adaptations allowed Europe to catch up with the Middle East and China, where contracting institutions in long-distance trade were already highly developed and widely shared at the end of the first millennium. Indeed, after several centuries of urban competition Europe had developed a common set of contracting institutions—and these institutional arrangements were also more varied and sophisticated, a quality that would eventually make them the global standard in the nineteenth century.<sup>46</sup>

This obviously is a very optimistic appraisal, as if urban competition always and everywhere led to an optimization of institutional arrange-

<sup>44</sup>De Vries 1984: 122. Notably Braudel (1977: 88–89) and Wallerstein (1976) put much greater emphasis on the few winners that came to dominate world trade.

<sup>45</sup>Tilly 1990: 51–54, 58–61, 86–91; Tilly and Blockmans 1994; Stasavage 2011: 3–4, 132–55.

<sup>46</sup>Greif 2006b: 388–400; Kuran 2010: 3–11; Rosenthal and Bin Wong 2011: 70–72, 80–83.

ments. That was not the case. The impetus for change differed with the economic opportunities of individual cities. In highly urbanized industrial regions neighboring cities might compete fiercely to become the principal outlet for local manufactures, whereas a single town in an underdeveloped region might feel no competitive pressure at all. Cities that were centrally located were also more attractive for the more or less footloose merchants who plied their trade over long distances, than ex-centrally located towns—a geographical reality that explains why in the seventeenth century institutional adaptation was a much more pervasive force in the Atlantic ports than for instance in the landlocked market towns of Central Europe.

Perhaps the most serious constraint on institutional change was the actual deterioration of a city's economic outlook. When cities were pushed to the periphery of the international urban network they became more susceptible to rent seeking by local elites, who tried to shape local institutions to maintain their share of a shrinking pie. This is very clear in the case of Lübeck and Venice when their commercial primacy faded during the sixteenth century. But even though they took a more hostile attitude toward new entrants, their institutions nevertheless remained in sync with the international standard, simply because the remaining merchants continued to trade internationally. Indeed, the survival of institutional know-how was such that even after long periods of economic decline, cities could regain a prominent role in international trade, witness the reemergence of Antwerp as one of Europe's principal ports in the nineteenth century.

Why was the adaptation of commercial institutions such a pervasive force in Europe before the Industrial Revolution? Some historians have pointed to the rise of an international culture of commerce.<sup>47</sup> In their view the constant interaction between merchants from around Europe created common business norms and beliefs that helped to bridge the social distance between merchants from different religious and cultural backgrounds. But even if cultural beliefs, as a rule, have a deep impact on the nature of institutional change, in this case the timing is wrong because a cosmopolitan culture emerged only in markets where foreign groups had come to know each other really well.<sup>48</sup> Indeed, institutional change in European trade derived from the exact opposite of a common culture, that

<sup>47</sup>For Europe: Jacob 2006: 66–94. For Antwerp: Kint 1996b: 343–96; Van Damme 2010: 487–503. Compare Mokyr (2010: 188–94) for the rise of so-called gentlemanly capitalism in eighteenth-century England, and Trivellato (2009: 70–101, 248–49) on the cosmopolitan attitude of Portuguese merchants in Livorno.

<sup>48</sup>On the relationship between individualistic beliefs and the rise of institutions for impersonal exchange, see Greif 1994a: 941–42; Greif 2006b: 269–304; and North 2005: 78–80, 101.

is, the heterogeneity of the merchant community. In major commercial cities there always were many different groups of merchants, each with their own specific commercial, financial, and legal demands. Notably foreign merchants were easily tempted to move their business elsewhere, and to bind these footloose traders cities were forced to adapt institutional arrangements to their needs.<sup>49</sup> The pressure thus exerted resembles that of the boycotts Greif, Milgrom, and Weingast described for medieval merchant guilds, but it did not necessarily require collective action to get local governments to act because, by definition, any removal of a merchant strengthened a rival city.

So why would rulers compete through institutional arrangements rather than the use of force? Surely the leading cities were powerful enough to hurt commercial rivals through tariffs, embargoes, or outright warfare—and they probably did, considering the high incidence of violence in the history of European trade. However, there were so many competing states in Europe with one or more important markets in their territory that sovereigns were careful not to prey on merchants in these cities.<sup>50</sup> They not just feared the direct loss of fiscal revenue or a higher cost of capital, but also realized they would play into the hands of their political rivals, as foreign merchants in particular were footloose and would not hesitate to remove their business to ports outside their realm.<sup>51</sup> The value of having at least one major port in one's territory explains the close connections between the English crown and London's merchant elite—ever since the thirteenth century the city had been the principal gateway to the British Isles—and it also explains the sometimes very crude interventions of sovereigns on the Continent, such as the Habsburg clampdown on Bruges in the late fifteenth century and the reduction of La Rochelle and other Huguenot strongholds by the king of France in the seventeenth century. In both cases the crown confronted the cities head-on because their merchants could move to nearby ports with a similar commercial infrastructure that were firmly under the sovereign's control.<sup>52</sup>

<sup>49</sup>See Albert Hirschman's contention that exit can be a very effective incentive for firms to optimize their production process provided that only some of the customers are willing to do so. If no customer is willing to exit, there is no incentive for the firm managers to change the organization of their firm, but if all customers leave for the smallest inconvenience, a very unstable situation emerges (Hirschman 1970: 24).

<sup>50</sup>Tilly 1990.

<sup>51</sup>See Mokyr (2007: 24, 28–31), who has drawn attention to the existence in seventeenth- and eighteenth-century Europe of a very mobile international community of scholars whose development of new scientific ideas benefited from the attempts of competing princes to attract the most capable among them to their respective realms.

<sup>52</sup>For the siege of La Rochelle, see Robbins 1997: 355.

In brief, the political and legal fragmentation of premodern Europe that harmed trade on many occasions also created competitive pressure on cities to develop institutional arrangements to deal with these problems. Cities were the focal point of institutional change because their governments, regardless of the background of individual members, vied for a more central position in Europe's urban network. To a large extent this process was self-propelling because the growing connectivity between cities, and the related alignment of institutional arrangements, made it increasingly easy for merchants to relocate at low cost when economic or political circumstances changed adversely. And thus, in a world where merchants moved around easily and cities competed to increase their share in international trade, even in polities in which international traders were entirely without political voice, rulers had strong incentives to improve institutional arrangements.

#### THE CASE OF THE LOW COUNTRIES

To demonstrate how urban competition shaped the institutional foundations of international trade in premodern Europe, this book analyzes the business organization of local and foreign merchant communities in Bruges, Antwerp, and Amsterdam. Between 1250 and 1650 these ports succeeded each other as main hubs of long-distance trade in Europe. In 1300 Bruges was one of the first cities on the Continent to establish durable ties with the commercial worlds of the Baltic, the North Sea, and the Mediterranean. As more and more foreign merchants flocked to the Flemish port, it became the principal gateway of Northwestern Europe.<sup>53</sup> Antwerp took over Bruges's leading position in the late fifteenth century, and its appeal to international traders may have been bigger still as the city became the principal outlet for colonial wares imported through Spain and Portugal.<sup>54</sup> With the rise of the Amsterdam market after 1585 the commercial center of gravity in Europe definitely shifted to the North Sea area. Merchants in the Dutch Republic established direct trading connections with every known market inside and outside Europe, and by 1650 Amsterdam had become the undisputed center of world trade.<sup>55</sup>

The analysis begins in chapter 2 with a general discussion of the competition between neighboring ports that led Bruges, Antwerp, and Amsterdam to the adaptation of institutional arrangements to the needs of

<sup>53</sup>Murray 2005: 216–58; Blockmans 2010b: 249–63.

<sup>54</sup>Van Houtte 1953; Van der Wee 1963: 2:113–208.

<sup>55</sup>Barbour 1950; Israel 1989: 38–120; De Vries and Van der Woude 1997: 350–408; Jonker and Sluiterman 2000; Lesger 2006: 62–138.

international traders. For Bruges and Antwerp, where few local businessmen traded abroad between 1300 and 1500, this competition revolved around the recruitment of foreign merchants. The special privileges they extended to merchants from Germany, England, France, Portugal, Spain, and several Italian cities, and their more general efforts to improve the cities' commercial and legal infrastructure, were designed to concentrate the sales of manufactures from the Low Countries in one location and to offer merchants from around Europe a platform to trade between each other. In the sixteenth century Amsterdam demonstrated a similar willingness to adapt institutional arrangements, first to increase its share in the Baltic grain trade, and then, after the fall of Antwerp in 1585, to become the principal gateway of Northwestern Europe. Contrary to the earlier efforts of Bruges and Antwerp to attract specific groups of merchants through extensive privileges, Amsterdam chose to treat all merchants, local and foreign, equally.

The remainder of the book explores the various combinations of private and public institutions that merchants in Bruges, Antwerp, and Amsterdam used to keep trading partners on their toes and to protect their trade against violence. Chapter 3 examines the cities' creation of spot markets as a means for foreign traders to find buyers or sellers and negotiate deals with them. On a practical level I will show how public vending locations were constantly adapted to the size and composition of the merchant community, and how the work of local hostellers and brokers was regulated to ensure the availability of current commercial information to all merchants at low cost. At a deeper level these adaptations reveal exactly how far local governments were willing to go to attract trade. Initially hostellers in each of the three cities offered a wide range of services to foreign visitors. They provided accommodation and storage facilities, they acted as their brokers and commission agents, and they even acted as guarantors for debts outstanding. The crux of this arrangement was the merchants' obligation to use a broker for each and every transaction, albeit at very low cost. This division of labor served the foreigners well up until the moment they became permanent residents and started building their own information networks. Now they could find their own trading partners, and as they rented or bought their own houses and storerooms, they no longer needed the hostellers for accommodation either. The urban magistrates drew the logical conclusion and reorganized the brokers' profession into a subservient group of information specialists—accepting the inevitable corollary of hostellers and brokers losing their leading position in the local market.

Still, these changes in the commercial infrastructure of Bruges, Antwerp, and Amsterdam could not solve all information problems for merchants, notably because their permanent presence in the Low Countries

forced them to trade at arm's length with merchants elsewhere in Europe. To organize these cross-border transactions, international traders relied on relatives and friends who either traded on a commission basis or became their formal partners. To instruct these foreign agents the merchants used extensive correspondence and kept private accounts to monitor their operations. Chapter 4 will show that these private arrangements were essential to the growth of the markets of Bruges, Antwerp, and Amsterdam, but it will also reveal the fundamental contribution local governments made to the governance of these cross-border transactions. At first the magistrates' support consisted mainly of the public registration of sales and overseas shipments, but in the course of time the local courts began to accept business correspondence and private accounts as legal proof in lawsuits. For merchants, even if they tried very hard to keep away from time-consuming and reputation-damaging legal proceedings, the creation of a general standard for the instruction of distant agents and the reporting of their results buttressed their private efforts to keep trading partners from cheating and shirking.

This complementary relation between private and public institutions is further explored in chapter 5 when we consider the various ways in which merchants dealt with actual disputes over business transactions. We review the available evidence on commercial litigation in Bruges, Antwerp, and Amsterdam to show that merchants used a combination of peer pressure, arbitration, local court proceedings, and, occasionally, appeals to central courts to end their disputes, albeit with an overwhelming preference for amicable settlement. The resolution of commercial conflicts not only reveals the willingness of urban magistrates to adapt local court proceedings to the merchants' private efforts to enforce contracts, but also reveals the deep impact the presence of a large and heterogeneous group of traders from different parts of Europe had on the process of institutional change. When foreign merchants started to settle in Bruges and Antwerp for longer periods they were granted consular jurisdictions that allowed the leaders of their *nations* to combine the formal representation of their home government with the registration of business transactions and the adjudication of commercial disputes according to the legal rules of their hometown. But as these merchants went beyond basic sales and purchases with merchants from different legal backgrounds they had to choose between the contractual prescripts of either one of the two parties. The magistrates of Bruges, Antwerp, and Amsterdam played a crucial role in facilitating this legal crossover because they allowed merchants to use arbiters to settle disputes amicably and according to their own chosen standard, and because they actively sought to append local customary law with foreign mercantile usage. And

thus, just like the hostellers who lost their attraction as key intermediaries when merchants began to organize their own information networks, the consuls of the foreign nations in Bruges and Antwerp were superseded by the local judges of Bruges, Antwerp, and Amsterdam who adapted their court proceedings to serve the merchant community at large.

The final two chapters of the book turn away from agency problems that issued from Europe's legal fragmentation to focus instead on the violence issuing from the Continent's political fragmentation. The turbulent political history of the Low Countries in the late medieval and early modern period allows us to explore how political fragmentation influenced the organization of international trade. Initially, Bruges, Antwerp, and Amsterdam belonged to relatively small polities—the county of Flanders, the duchy of Brabant, and the county of Holland, respectively. In the first half of the fifteenth century the Dukes of Burgundy brought these areas under one rule, and their attempts at political, administrative, and legal centralization of the Netherlands were forcefully continued by Emperor Charles V and his son Philip II in the sixteenth century. As they built their states, the Dukes of Burgundy, the Habsburg kings, and the States General of the Dutch Republic also engaged in wars with other countries. Both these international conflicts and the constant struggle between local and central authorities caused serious damage to merchants, so much so that the Flemish Revolt (1483–92) and the Dutch Revolt (1568–88) ended the commercial hegemony of Bruges and Antwerp, respectively.

The Low Countries nevertheless remained at the heart of European commerce for two reasons. In chapter 6 I will demonstrate that it was not the political power of local or foreign traders that determined the protective efforts of local and central governments, but the merchants' ability to take their business to another city in case of conflicts. Europe's fragmentation implied that such a move would typically find them in another principality, and that created a powerful incentive for rulers to protect trade. But even if this reduced the incidence of violence against international traders, it was never enough to secure their complete safety. Chapter 7 therefore explores the various ways in which merchants dealt with losses. Urban competition mattered once again, not only for specific groups like the German Hanse, punctuating their demand for damages with removals to neighboring ports, but also for the merchant community at large that used the cities' increasingly sophisticated commodity and financial markets to share, spread, and transfer the commercial risks that issued from Europe's political and legal fragmentation.